FCSIC
Farm Credit System Insurance Corporation

MEMORANDUM

January 23, 2019

To: Chairman, Board of Directors
Chief Executive Officer
Each Farm Credit System Institution

From: Jeffery S. Hall
Chairman

Subject: Board Approves Premiums Rates for 2019

The Farm Credit System Insurance Corporation (Corporation or FCSIC) board has approved an insurance premium assessment rate on adjusted insured debt of 9 basis points for 2019. The board also approved continuing the assessment of 10 basis points on nonaccrual loans and other-than-temporarily impaired investments.

The Federal Farm Credit Banks Funding Corporation reports that outstanding insured debt obligations increased by 6.2 percent ($16.5 billion) from $265.3 billion at year-end 2017 to $281.8 billion at year-end 2018. Based on preliminary results, at December 31, 2018 the unallocated Insurance Fund was at 2.03 percent, or $66 million above the 2 percent secure base amount (SBA). FCSIC is required, after deducting its operating expenses, to transfer funds in excess of the SBA to Allocated Insurance Reserve Accounts (AIRAs) established for each System bank. After all year-end results are finalized, including reports of System institutions on their condition and performance, the board will consider using its discretionary authority under the Farm Credit Act to make payments from the AIRAs.

The board considered the following factors in setting premiums:

- Current level of the Insurance Fund and projections for growth in insured obligations;
- Likelihood and probable amount of any losses to the Insurance Fund;
- Financial condition of the Farm Credit System banks and associations;
- Health and prospects for the agricultural economy; and,
- Risks in the financial environment that could cause problems, including volatility of interest rates, increased competition, and use of sophisticated investment securities and derivatives.

On September 19, 2018, I issued a memorandum indicating that the board of directors had decided that, for planning purposes, the insurance premium rate on adjusted insured debt would likely range from 7 to 10 basis points for 2019. On a weighted average basis, the anticipated 2019 growth rate

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provided by System banks in early January 2019 is 2.7 percent, which was 0.6 percent lower than the 3.3 percent estimate in September 2018.

Over the past five years, insured debt has grown an average of 6.4 percent annually. An accrual rate of 9 basis points on adjusted insured obligations will allow the Insurance Fund to achieve the SBA at a 6 percent growth rate.

The board will meet again in June 2019 to review growth in insured obligations and premium rates. If the Insurance Fund is substantially higher or lower than the SBA, premium levels may need to change.

If you have questions concerning these matters please contact Andrew Grimaldi, FCSIC's Chief Financial Officer, at 703-883-4383 or grimaldia@fcsic.gov.

Attachment 1: Trend Analysis of Outstanding Insured Obligations
Attachment 2: Trend of the Unallocated Insurance Fund Relative to the 2% Secure Base Amount

Preliminary Trend Analysis of Outstanding Insured Obligations

12 Months Ending December 31, 2018

($ in Millions)

BANK	31-Dec 2018	30-Nov 2018	11/30/18 to 12/31/18 $ Change to 31-Dec	% Change to 31-Dec	YEAR TO DATE 2018 31-Dec 2017	$ Change from 31-Dec	% Change from 31-Dec	% Change Annualized	12/31/17 to 12/31/18 31-Dec 2017	31-Dec 2018	12 Month Change
AGFIRST	30,445.8	30,115.8	330.0	1.1%	29,763.0	682.8	2.3%	2.3%	29,763.0	30,445.8	2.3%
AGRIBANK	102,229.6	101,352.3	877.3	0.9%	97,314.0	4,915.6	5.1%	5.1%	97,314.0	102,229.6	5.1%
COBANK	126,575.4	122,577.0	3,998.4	3.3%	117,250.1	9,325.3	8.0%	8.0%	117,250.1	126,575.4	8.0%
TEXAS FCB	22,529.5	22,424.5	105.0	0.5%	20,951.2	1,578.3	7.5%	7.5%	20,951.2	22,529.5	7.5%
TOTAL OBLIGATIONS *	$ 281,780.3	$ 276,469.6	5,310.7	1.9%	$ 265,278.3	16,502.0	6.2%	6.2%	$ 265,278.3	$ 281,780.3	6.2%

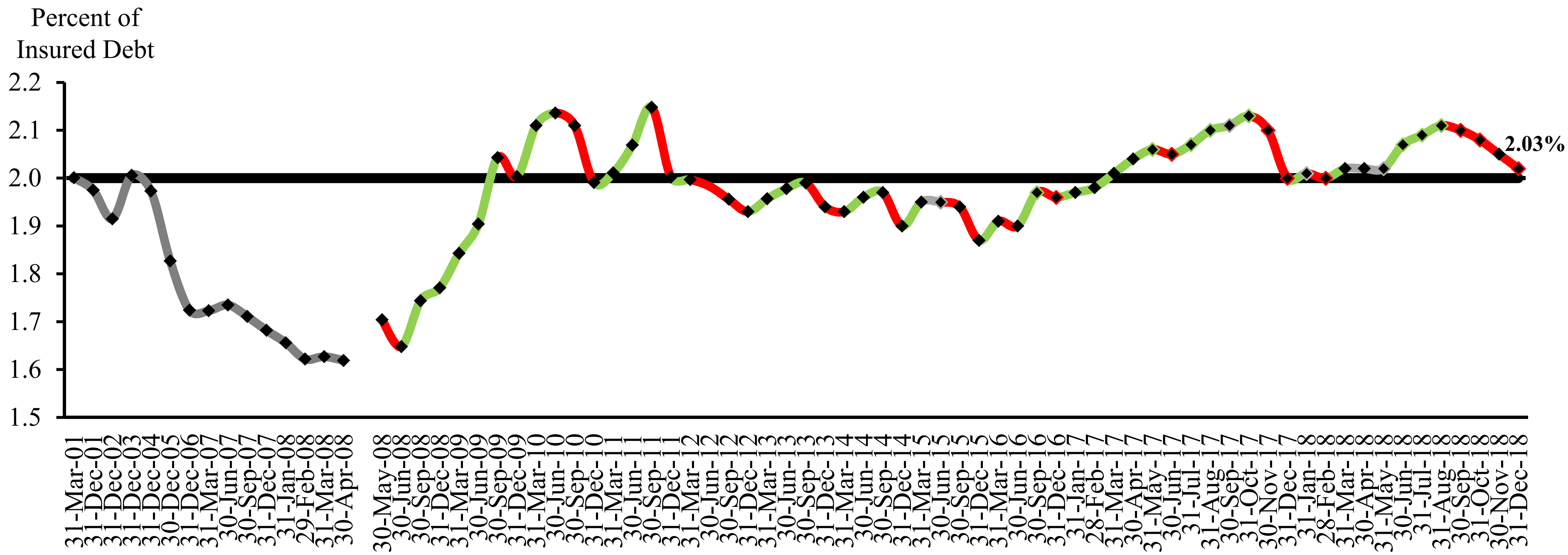
*** Source**

Quarter-end data: FCA call reports which include amortization of premiums and discounts.

Monthly and preliminary quarter-end data: Funding Corporation system debt obligations report at par value.

Attachment 1

Preliminary Trend of the Unallocated Insurance Fund
Relative to the 2% Secure Base Amount
December 31, 2018



(1) A change in the secure base amount (SBA) calculation methodology requested by the Insurance Corporation was included in the Food, Conservation and Energy Act of 2008. The methodology allows the deduction of Federal and state-guaranteed investments from the SBA in a manner similar to that used for Federal and state-guaranteed loans.

(2) At year-end, based on a statutory formula, excess funds above the SBA may be transferred to Allocated Insurance Reserve Accounts (AIRAs). The AIRAs balance is recorded as part of the Insurance Fund and is available to satisfy insurance obligations until the Insurance Corporation disburses payment to the accountholders (Farm Credit Banks and FAC stockholders). In four distributions between February 2010 and March 2018, $603.0 million in excess funds were paid to accountholders. The FAC stockholders have been fully reimbursed and no further allocation will be made to this AIRA account.

Attachment 2